
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission File No. 1-11680

El Paso Energy Partners, L.P.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

76-0396023
(I.R.S. Employer
Identification No.)

El Paso Building
1001 Louisiana Street
Houston, Texas
(Address of Principal Executive Offices)

77002
(Zip Code)

Registrant's Telephone Number, Including Area Code: (713) 420-2600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The registrant had 43,984,885 common units outstanding as of May 10, 2002.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO ENERGY PARTNERS, L.P. CONDENSED CONSOLIDATED STATEMENTS OF INCOME (In thousands, except per unit amounts) (Unaudited)

	Quarter Ended March 31,	
	2002	2001
Operating revenues	\$ 61,544	\$54,502
Operating expenses		
Cost of natural gas	12,158	22,971
Operations and maintenance	14,440	5,516
Depreciation, depletion and amortization	12,549	8,302
Asset impairment charge	—	3,921
	<u>39,147</u>	<u>40,710</u>
Operating income	<u>22,397</u>	<u>13,792</u>
Other income (loss)		
Earnings (loss) from unconsolidated affiliates	3,361	(4,712)
Net gain (loss) on sale of assets	315	(10,381)
Other income	426	25,981
	<u>4,102</u>	<u>10,888</u>
Income before interest, income taxes and other charges	<u>26,499</u>	<u>24,680</u>
Interest and debt expense	11,758	10,923
Minority interest	—	41
	<u>11,758</u>	<u>10,964</u>
Income from continuing operations	14,741	13,716
Income (loss) from discontinued operations	4,385	(743)
Net income	<u>\$ 19,126</u>	<u>\$12,973</u>
Income (loss) allocation		
Series B unitholders	<u>\$ 3,552</u>	<u>\$ 4,322</u>
General partner		
Continuing operations	\$ 8,691	\$ 4,702
Discontinued operations	44	(7)
	<u>\$ 8,735</u>	<u>\$ 4,695</u>
Limited partners		
Continuing operations	\$ 2,498	\$ 4,692
Discontinued operations	4,341	(736)
	<u>\$ 6,839</u>	<u>\$ 3,956</u>
Basic and diluted earnings per unit		
Income from continuing operations	\$ 0.06	\$ 0.14
Income (loss) from discontinued operations	0.11	(0.02)
Net income	<u>\$ 0.17</u>	<u>\$ 0.12</u>
Weighted average number of units outstanding	<u>39,941</u>	<u>32,471</u>

See accompanying notes.

EL PASO ENERGY PARTNERS, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except unit amounts)
(Unaudited)

	<u>March 31, 2002</u>	<u>December 31, 2001</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 133,432	\$ 13,084
Accounts receivable, net	50,368	56,025
Other current assets	<u>3,314</u>	<u>293</u>
Total current assets	187,114	69,402
Property, plant, and equipment, net	936,801	917,867
Assets held for sale, net	188,183	185,824
Investment in processing agreement	118,462	119,981
Investment in unconsolidated affiliates	33,438	34,442
Other noncurrent assets	<u>28,192</u>	<u>29,754</u>
Total assets	<u>\$1,492,190</u>	<u>\$1,357,270</u>
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable	\$ 19,948	\$ 24,905
Accrued interest	14,658	6,401
Current maturities of limited recourse term loan	19,000	19,000
Other current liabilities	<u>5,171</u>	<u>4,159</u>
Total current liabilities	58,777	54,465
Revolving credit facility	444,000	300,000
Long-term debt	425,000	425,000
Limited recourse term loan, less current maturities	76,000	76,000
Other noncurrent liabilities	<u>1,146</u>	<u>1,079</u>
Total liabilities	<u>1,004,923</u>	<u>856,544</u>
Commitments and contingencies		
Partners' capital		
Limited partners		
Series B preference units; 125,392 units issued and outstanding	146,448	142,896
Common units; 39,740,974 and 39,738,974 units issued and outstanding	335,752	354,019
Accumulated other comprehensive income allocated to limited partners' interests	128	(1,259)
General partner	4,938	5,083
Accumulated other comprehensive income allocated to general partners' interests	<u>1</u>	<u>(13)</u>
Total partners' capital	<u>487,267</u>	<u>500,726</u>
Total liabilities and partners' capital	<u>\$1,492,190</u>	<u>\$1,357,270</u>

See accompanying notes.

EL PASO ENERGY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Quarter Ended March 31,	
	2002	2001
Cash flows from operating activities		
Net income	\$ 19,126	\$ 12,973
Less income (loss) from discontinued operations	4,385	(743)
Income from continuing operations	14,741	13,716
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	12,549	8,302
Asset impairment charge	—	3,921
Distributed earnings of unconsolidated affiliates		
(Earnings) loss from unconsolidated affiliates	(3,361)	4,712
Distributions from unconsolidated affiliates	4,500	6,922
Net (gain) loss on sales of assets	(315)	10,381
Other noncash items	1,265	912
Working capital changes, net of non-cash transactions	8,399	(23,508)
Net cash provided by continuing operations	37,778	25,358
Net cash provided by (used in) discontinued operations	5,429	(519)
Net cash provided by operating activities	43,207	24,839
Cash flows from investing activities		
Additions to property, plant and equipment	(35,110)	(136,267)
Proceeds from sales of assets	5,460	108,233
Additions to investments in unconsolidated affiliates	—	(1,486)
Net cash used in investing activities of continuing operations	(29,650)	(29,520)
Net cash used in investing activities of discontinued operations	(3,523)	(18,207)
Net cash used in investing activities	(33,173)	(47,727)
Cash flows from financing activities		
Net proceeds from revolving credit facility	143,978	142,620
Revolving credit repayments	—	(123,000)
Net proceeds from issuance of common units	56	73,358
Distributions to partners	(33,717)	(22,122)
Net cash provided by financing activities of continuing operations	110,317	70,856
Net cash provided by (used in) financing activities of discontinued operations	(3)	24,962
Net cash provided by financing activities	110,314	95,818
Increase in cash and cash equivalents	120,348	72,930
Cash and cash equivalents		
Beginning of period	13,084	20,281
End of period	<u>\$ 133,432</u>	<u>\$ 93,211</u>

See accompanying notes.

EL PASO ENERGY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
AND CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

Comprehensive Income

	Quarter Ended March 31,	
	2002	2001
Net income	\$19,126	\$12,973
Other comprehensive income	1,401	—
Total comprehensive income	<u>\$20,527</u>	<u>\$12,973</u>

Accumulated Other Comprehensive Income

	Quarter Ended March 31,	
	2002	2001
Beginning balance	\$(1,272)	\$ —
Unrealized mark-to-market losses arising during period	(9)	—
Reclassification adjustments for changes in initial value of derivative instruments to settlement date	1,410	—
Ending balance	<u>\$ 129</u>	<u>\$ —</u>

See accompanying notes.

EL PASO ENERGY PARTNERS, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

Our 2001 Annual Report on Form 10-K includes a summary of our significant accounting policies and other disclosures. You should read it in conjunction with this Quarterly Report on Form 10-Q. The financial statements as of March 31, 2002, and for the quarters ended March 31, 2002 and 2001, are unaudited. The balance sheet as of December 31, 2001, is derived from the audited balance sheet filed in our Form 10-K. These financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission and do not include all disclosures required by accounting principles generally accepted in the United States. In our opinion, we have made all adjustments, all of which are of a normal, recurring nature, to fairly present our interim period results. Information for interim periods may not necessarily indicate the results of operations for the entire year due to the seasonal nature of our businesses. The prior period information also includes reclassifications which were made to conform to the current presentation. These reclassifications have no effect on our reported net income or partners' capital. Additionally, we have reflected the results of operations from our Prince assets disposition as discontinued operations for all periods presented. See Note 3 for a further discussion of our Prince assets disposition.

Our accounting policies are consistent with those discussed in our Form 10-K, except as discussed below.

Goodwill and Other Intangible Assets

On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Our adoption of this standard did not have a material effect on our financial statements.

Asset Impairments

On January 1, 2002, we adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The provisions of this statement supersede SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. There was no initial financial statement impact of adopting this standard.

2. ACQUISITIONS

EPN Holding Assets

In April 2002, EPN Holding Company, L.P., our newly formed wholly-owned subsidiary, acquired from El Paso Corporation midstream assets located in Texas and New Mexico. El Paso Corporation is the indirect parent of our general partner. The acquired assets, which we refer to as the EPN Holding assets, or the midstream assets, include:

- Texas pipeline assets, including the EPGT Texas intrastate pipeline system;
- the Waha gathering and treating system located in the Permian Basin region of Texas and New Mexico;
- the Carlsbad gathering system located in the Permian Basin region of New Mexico;

As generally used in the energy industry and in this document, the following terms have the following meanings:

/d	= per day	Mcf	= thousand cubic feet
Bbl	= barrel	MDth	= thousand dekatherms
MBbls	= thousand barrels	MMcf	= million cubic feet

When we refer to cubic feet measurements, all measurements are at 14.73 pounds per square inch.

- an approximate 42.3 percent non-operating interest in the Indian Basin processing and treating facility located in southeastern New Mexico; and
- a leased interest in the Wilson natural gas storage facility located in Wharton County, Texas.

The \$750 million sales price was adjusted for the assumption of \$15 million of working capital related to natural gas imbalances. The net consideration of \$735 million for the EPN Holding assets was comprised of the following:

- \$420 million of cash;
- \$119 million of assumed short-term indebtedness payable to El Paso Corporation, which has been repaid;
- \$6 million in common units; and
- \$190 million in assets, comprised of our Prince tension leg platform (TLP) and our nine percent Prince overriding royalty interest.

To finance substantially all of the cash consideration related to this acquisition, EPN Holding entered into a limited recourse credit agreement with a syndicate of commercial banks.

Hattiesburg Propane Storage

In January 2002, we acquired a 3.3 million barrel propane storage business and leaching operation located in Hattiesburg, Mississippi from Suburban Propane Partners, L.P. As part of the transaction, we entered into a long-term propane storage agreement with Suburban Propane Partners for a portion of the acquired propane storage capacity. We intend to convert a portion of these assets to natural gas storage and will integrate them with our adjacent Petal natural gas storage facility.

3. PRINCE ASSETS DISPOSITION

In connection with our acquisition of the midstream assets from El Paso Corporation, we committed in February 2002 to dispose of our Prince TLP and our nine percent overriding royalty interest in the Prince Field to subsidiaries of El Paso Corporation. The results of operations for these assets have been accounted for as discontinued operations and have been excluded from continuing operations for all periods in our statements of income. Accordingly, the segment results in Note 9 do not reflect the results of operations for the Prince assets. The Prince TLP was previously included in the Platform services segment and the related royalty interest was included in the Other segment. Included in income from discontinued operations for the quarter ended March 31, 2002, was operating revenues of \$6.7 million. We did not recognize any revenue related to the Prince assets during the quarter ended March 31, 2001.

The assets and liabilities related to the Prince assets disposition consist of the following:

	March 31, 2002	December 31, 2001
	(In thousands)	
Property, plant and equipment	\$193,219	\$189,696
Accumulated depreciation	(5,036)	(3,872)
Assets held for sale, net	188,183	185,824
Unamortized debt issue costs	1,041	1,091
Limited recourse term loan	(95,000)	(95,000)
Accrued interest on term loan	(530)	(703)
Net assets related to the Prince assets disposition	<u>\$ 93,694</u>	<u>\$ 91,212</u>

In April 2002, we sold the Prince assets for \$190 million and recognized a gain on the sale of approximately \$0.8 million which will be recorded in the second quarter of 2002. In conjunction with this transaction, we repaid the related outstanding \$95 million principal balance under our limited recourse term loan.

4. PARTNERS' CAPITAL

In February 2002, we paid cash distributions of \$0.625 per common unit for an aggregate amount of \$24.8 million and our general partner received incentive distributions of \$8.9 million. In April 2002, we declared a cash distribution of \$0.65 per common unit for the quarter ended March 31, 2002, which we will pay on May 15, 2002, to holders of record as of April 30, 2002. In addition, we will pay our general partner \$10.6 million in incentive distributions. At the current distribution rates, our general partner receives approximately 26 percent of total cash distributions we pay.

In April 2002, we issued 4,083,938 common units, which included 1,083,938 common units purchased by our general partner at the public offering price of \$37.86 per unit pursuant to its anti-dilution right under our partnership agreement. We used the net cash proceeds of approximately \$149.3 million to reduce indebtedness under EPN Holding's acquisition credit agreement. Also in April 2002, we issued approximately 159,000 common units at the then-current market price of \$37.74 per unit to El Paso Corporation as partial consideration for our acquisition of its midstream assets. In addition, our general partner contributed approximately \$1.5 million in cash to us in order to maintain its one percent capital account balance.

5. PROPERTY, PLANT AND EQUIPMENT

Our property, plant and equipment consisted of the following:

	March 31, 2002	December 31, 2001
	(In thousands)	
Property, plant and equipment, at cost		
Pipelines	\$ 849,919	\$ 856,335
Platforms and facilities	124,305	125,546
Processing plant	138,090	138,090
Oil and natural gas properties	125,665	125,665
Storage facilities	156,296	156,800
Construction work-in-progress	137,793	99,667
	<u>1,532,068</u>	<u>1,502,103</u>
Less accumulated depreciation, depletion, and amortization	<u>595,267</u>	<u>584,236</u>
Property, plant and equipment, net	<u>\$ 936,801</u>	<u>\$ 917,867</u>

6. DEBT AND OTHER CREDIT FACILITIES

Shelf registration

In February 2002, our shelf registration statement, as filed with the Securities and Exchange Commission, covering up to \$1 billion of securities representing limited partnership interests, became effective.

EPN Holding limited recourse credit agreement

In connection with its acquisition of midstream assets from El Paso Corporation in April 2002, EPN Holding entered into a \$560 million limited recourse credit agreement with a group of commercial banks. The credit agreement provides for a term loan of \$535 million to finance the acquisition of the EPN Holding assets, and a revolving loan of up to \$25 million to finance EPN Holding's working capital. EPN Holding's right to borrow money from time to time under the revolving loan is dependent on its continued compliance with the conditions and covenants provided in the credit agreement, including its compliance with various financial ratios. Subject to specified exceptions, EPN Holding is required to repay the term loan with any net proceeds received from specified types of events or transactions, including purchase price adjustment settlements, insurance claim settlements and our issuance of equity securities and specified debt securities. This credit agreement limits EPN Holding's ability to pay distributions to us. EPN Holding's obligations under the credit agreement are guaranteed by substantially all of its subsidiaries and EPN Holding Company I, L.P. and EPN GP Holding, L.L.C., our two subsidiaries that own the equity interests in EPN Holding. At the time of its acquisition, EPN Holding borrowed \$535 million under this term loan and

had \$25 million available under the revolving loan. The interest rate under the credit agreement varies and was approximately 4.41% at the time of the asset acquisition. EPN Holding pays an annual commitment fee of 0.50% on the average daily amount available under both the revolving loan and the term loan. Both loans mature in April 2005. We used net proceeds of approximately \$149.3 million from our April 2002 common unit offering to reduce indebtedness under this agreement.

Revolving credit facility

As of March 31, 2002, we had \$444 million outstanding with an average interest rate of 3.51% under our \$600 million revolving credit facility with the full unused amount available. In April 2002, we borrowed an additional \$99 million in connection with our acquisition of the midstream assets to repay Argo L.L.C.'s \$95 million limited recourse term loan related to the Prince TLP and provide additional funding for this transaction.

Limited recourse term loan

As of March 31, 2002, Argo had \$95 million outstanding under its limited recourse term loan. The average variable interest rate on the debt outstanding at March 31, 2002, was 3.63%. This loan was repaid in full in April 2002 in connection with the EPN Holding asset acquisition.

Other credit facility

Poseidon Oil Pipeline Company, L.L.C. is party to a \$185 million credit agreement under which it has outstanding obligations that may restrict its ability to pay distributions to its owners.

In January 2002, Poseidon entered into a two-year interest rate swap agreement to fix the interest rate at 3.49% through January 2004 on \$75 million of the \$150 million outstanding on its credit facility. As of March 31, 2002, the remaining \$75 million was at an average floating interest rate of 3.38%.

7. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

In 1997, we, along with several subsidiaries of El Paso Corporation, were named defendants in actions brought by Jack Grynberg on behalf of the U.S. Government under the False Claims Act. Generally, these complaints allege an industry-wide conspiracy to under report the heating value as well as the volumes of the natural gas produced from federal and Native American lands, which deprived the U.S. Government of royalties. These matters have been consolidated for pretrial purposes (In re: Natural Gas Royalties *Qui Tam* Litigation, U.S. District Court for the District of Wyoming, filed June 1997). In May 2001, the court denied the defendants' motions to dismiss.

We have also been named defendants in *Quinque Operating Company, et al v. Gas Pipelines and Their Predecessors, et al*, filed in 1999 in the District Court of Stevens County, Kansas. This class action complaint alleges that the defendants mismeasured natural gas volumes and heating content of natural gas on non-federal and non-Native American lands. The Quinque complaint was transferred to the same court handling the Grynberg complaint and has now been sent back to Kansas State Court for further proceedings. A motion to dismiss this case is pending.

Our Argo L.L.C. subsidiary has received a claim from its contractor related to our recently completed Prince TLP. The contractor received a request for additional payments from its subcontractor as a result of variation orders and is seeking to pass these costs along to Argo. Negotiations between us, the contractor and the subcontractor are underway.

Under the terms of our agreement to acquire the midstream assets, subsidiaries of El Paso Corporation have agreed to indemnify us against all obligations related to legal matters. During 2000, Leapartners, L.P. filed a suit against El Paso Field Services in the District Court of Loving County, Texas, alleging a breach of contract to gather and process gas in areas of western Texas related to an asset we acquired. In May 2001, the

court ruled in favor of Leapartners and entered a judgement against El Paso Field Services of approximately \$10 million. El Paso Field Services subsequently filed an appeal with the Eighth Court of Appeals in El Paso, Texas. Review by the Court of Appeals is expected in December 2002.

In addition, we and our subsidiaries and affiliates are named defendants in numerous lawsuits and governmental proceedings that arise in the ordinary course of our business. For each of these matters, we evaluate the merits of the case, our exposure to the matter and possible legal or settlement strategies and the likelihood of an unfavorable outcome. If we determine that an unfavorable outcome is probable and can be estimated, we will make the necessary accruals. As new information becomes available, our estimates may change. The impact of these changes may have a material effect on our results of operations. As of March 31, 2002, we had no accruals relating to legal proceedings.

While the outcome of the matters discussed above cannot be predicted with certainty, based on information known to date, we do not expect the ultimate resolution of these matters will have a material adverse effect on our financial position, operating results or cash flows.

Environmental

We are subject to extensive federal, state, and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. As of March 31, 2002, we had no accruals for environmental matters. However, in conjunction with our April 2002 acquisition of the midstream assets, we assumed an estimated liability of approximately \$24 million for remediation costs associated with mercury meters.

It is possible that new information or future developments could require us to reassess our potential exposure related to environmental matters. We may incur significant costs and liabilities in order to comply with existing environmental laws and regulations. It is also possible that other developments, such as increasingly strict environmental laws, regulations and claims for damages to property, employees, other persons and the environment resulting from current or past operations, could result in substantial costs and liabilities in the future. As this information becomes available, or other relevant developments occur, we will make accruals accordingly.

Regulatory Matters

In September 2001, the Federal Energy Regulatory Commission (FERC) issued a Notice of Proposed Rulemaking (NOPR) that proposes to apply the standards of conduct governing the relationship between interstate pipelines and marketing affiliates to all energy affiliates. Since our High Island offshore system (HIOS) and Petal Gas Storage facility are interstate facilities as defined by the Natural Gas Act, the proposed regulations, if adopted by FERC, would dictate how HIOS and Petal conduct business and interact with all energy affiliates of El Paso Corporation and us. In April 2002, the FERC staff issued a notice of public conference to be heard on May 21, 2002, at which interested parties will be given an opportunity to comment further on the NOPR. We cannot predict the outcome of the NOPR, but adoption of the regulations in substantially the form proposed would, at a minimum, place administrative and operational burdens on us. Further, more fundamental changes could be required such as a complete organizational separation or sale of HIOS and Petal.

While we cannot predict with certainty the final outcome or the timing of the resolution of all of our rates and regulatory matters, we believe the ultimate resolution of these issues, based on information known to date, will not have a material adverse effect on our financial position, results of operations or cash flows.

8. ACCOUNTING FOR HEDGING ACTIVITIES

A majority of our commodity purchases and sales, which relate to sales of oil and natural gas associated with our production operations and purchases and sales of natural gas associated with our El Paso Intrastate Alabama (EPIA) pipeline, are at spot market or forward market prices. We use futures, forward contracts,

and swaps to limit our exposure to fluctuations in the commodity markets and allow for a fixed cash flow stream from these activities.

At March 31, 2002, in connection with our EPIA operations, we have fixed price contracts with specific customers for the sale of predetermined volumes of natural gas for delivery over established periods of time. As of March 31, 2002, the fair value of these cash flow hedges is immaterial. We do not require collateral and do not anticipate non-performance by our counterparty. No ineffectiveness exists in our hedging relationship because all purchase and sale prices are based on the same index and volumes as the hedge transaction.

In January 2002, Poseidon entered into a two-year interest rate swap agreement to fix the interest rate on \$75 million of its \$150 million variable rate revolving credit facility at 3.49% over the life of the swap. At March 31, 2002, the fair value of its interest rate swap was \$0.4 million resulting in an unrealized gain of \$0.4 million. We included our 36 percent share of the unrealized gain of \$0.1 million in other comprehensive income which we estimate will be reclassified to earnings proportionately over the next 21 months. Additionally, we have recognized in income our 36 percent share of Poseidon's realized loss of \$0.3 million for the period ended March 31, 2002, or \$0.1 million, through our earnings from unconsolidated affiliates.

9. SEGMENT INFORMATION

We segregate our business activities into four distinct operating segments:

- Natural gas pipelines and plants;
- Oil and NGL logistics;
- Natural gas storage; and
- Platform services.

In October 2001, we acquired the Chaco processing plant and reflected the operations of this asset in our Oil and NGL logistics segment. In light of the expectations of acquiring additional natural gas pipeline and processing assets, effective January 1, 2002, we moved the Chaco processing plant to our Natural gas pipelines and plants segment. As a result of our sale of the Prince TLP and our nine percent overriding royalty interest in the Prince Field in April 2002, the results of operations from these assets are reflected as discontinued operations in our statements of income for all periods presented and are not reflected in our segment results below. Beginning in 2002, operations from our oil and natural gas production are reflected in Other.

We have restated the prior periods, to the extent practicable, in order to conform to our current business segment presentation. The restated results of operations for the quarter ended March 31, 2001, are not necessarily indicative of the results which would have been achieved had the revised business structure been in effect during the period.

Each of our segments are business units that offer different services and products. They are managed separately, as each requires different technology and marketing strategies. We measure segment performance using performance cash flows, or an asset's ability to generate cash flow. Performance cash flows are used as a supplemental financial measurement in the evaluation of our businesses and should not be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity. Performance cash flows may not be a comparable measurement among different companies. Following are results as of and for the quarters ending March 31:

	<u>Natural Gas Pipelines & Plants</u>	<u>Oil and NGL Logistics</u>	<u>Natural Gas Storage</u>	<u>Platform Services</u>	<u>Other⁽¹⁾</u>	<u>Total</u>
	(In thousands)					
2002						
Revenue from external customers	\$ 40,360	\$ 8,826	\$ 4,388	\$ 4,462	\$ 3,508	\$ 61,544
Intersegment revenue	59	—	—	3,109	(3,168)	—
Depreciation, depletion and amortization	6,505	1,468	1,401	1,092	2,083	12,549
Operating income (loss)	13,355	4,747	1,308	6,093	(3,106)	22,397
Earnings from unconsolidated affiliates	—	3,361	—	—	—	3,361
EBIT	13,673	8,108	1,308	6,093	(2,683)	26,499
Performance cash flows	20,178	10,715	2,709	12,822	2,094	48,518
Assets	561,831	191,425	256,254	277,373	205,307	1,492,190
2001						
Revenue from external customers	\$ 30,959	\$ 4,272	\$ 4,958	\$ 3,858	\$ 10,455	\$ 54,502
Intersegment revenue	116	—	—	3,175	(3,291)	—
Depreciation, depletion and amortization	2,367	716	1,401	1,127	2,691	8,302
Asset impairment charge	3,921	—	—	—	—	3,921
Operating income	1,967	2,627	2,513	4,773	1,912	13,792
Earnings (loss) from unconsolidated affiliates	(8,805)	4,093	—	—	—	(4,712)
EBIT	8,206	6,720	2,533	4,755	2,466	24,680
Performance cash flows	11,508	7,015	3,934	5,717	7,053	35,227
Assets	217,495	200,210	180,050	219,592	178,541	995,888

⁽¹⁾ Represents predominately our oil and natural gas production operations as well as intersegment eliminations.

Performance cash flows are determined by taking EBIT, and adding or subtracting as appropriate, cash distributions from unconsolidated affiliates; depreciation, depletion and amortization; earnings from unconsolidated affiliates and other items. The schedules below reconcile EBIT to performance cash flows.

Performance Cash Flows by Segment

	<u>Natural Gas Pipelines & Plants</u>	<u>Oil and NGL Logistics</u>	<u>Natural Gas Storage</u>	<u>Platform Services</u>	<u>Other</u>	<u>Total</u>
	(In thousands)					
Quarter Ended March 31, 2002						
EBIT	\$13,673	\$ 8,108	\$1,308	\$ 6,093	\$(2,683)	\$26,499
Plus: Depreciation, depletion and amortization	6,505	1,468	1,401	1,092	2,083	12,549
Cash distributions from unconsolidated affiliates	—	4,500	—	—	—	4,500
Net cash payment received from El Paso Corporation	—	—	—	—	1,882	1,882
Discontinued operations of Prince facilities	—	—	—	5,637	812	6,449
Less: Earnings from unconsolidated affiliates	—	3,361	—	—	—	3,361
Performance cash flows	<u>\$20,178</u>	<u>\$10,715</u>	<u>\$2,709</u>	<u>\$12,822</u>	<u>\$ 2,094</u>	<u>\$48,518</u>
Quarter Ended March 31, 2001						
EBIT	\$ 8,206	\$ 6,720	\$2,533	\$ 4,755	\$ 2,466	\$24,680
Plus: Depreciation, depletion and amortization	2,367	716	1,401	1,127	2,691	8,302
Asset impairment charge	3,921	—	—	—	—	3,921
Cash distributions from unconsolidated affiliates	3,250	3,672	—	—	—	6,922
Net cash payment received from El Paso Corporation	—	—	—	—	1,896	1,896
Discontinued operations of Prince facilities	—	—	—	(183)	—	(183)
Loss on sale of Gulf of Mexico assets	6,923	—	—	3,458	—	10,381
Less: Earnings (loss) from unconsolidated affiliates	(8,805)	4,093	—	—	—	(4,712)
Non-cash earnings related to future payments from El Paso Corporation	21,964	—	—	3,440	—	25,404
Performance cash flows	<u>\$11,508</u>	<u>\$ 7,015</u>	<u>\$3,934</u>	<u>\$ 5,717</u>	<u>\$ 7,053</u>	<u>\$35,227</u>

10. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

We hold investments in various affiliates which we account for using the equity method of accounting. In October 2001, we acquired the remaining 50 percent of Deepwater Holdings. Following this transaction, Deepwater Holdings is consolidated in our financial statements from the acquisition date. Summarized financial information for these investments is as follows:

Quarter Ended March 31, 2002 (In thousands)

	<u>Poseidon</u>
Ownership interest	<u>36%</u>
Operating results data:	
Operating revenues	\$14,390
Other income	310
Operating expenses	(1,423)
Depreciation	(2,049)
Other expenses	(1,702)
Net income	<u>\$ 9,526</u>
Our share:	
Allocated income	\$ 3,429
Adjustments ⁽¹⁾	<u>(68)</u>
Earnings from unconsolidated affiliates	<u>\$ 3,361</u>
Allocated distributions	<u>\$ 4,500</u>

Quarter Ended March 31, 2001 (In thousands)

	<u>Deepwater Holdings</u>	<u>Poseidon</u>	<u>Divested Investments⁽²⁾</u>	<u>Total</u>
Ownership interest	<u>50%</u>	<u>36%</u>	<u>—</u>	
Operating results data:				
Operating revenues	\$ 14,779	\$18,568	\$1,982	
Other income (loss)	—	366	(85)	
Operating expenses	(6,484)	(1,497)	(590)	
Depreciation	(2,886)	(2,837)	(953)	
Other expenses (income)	(2,978)	(2,821)	222	
Loss on sale	(14,925)	—	—	
Net income (loss)	<u>\$(12,494)</u>	<u>\$11,779</u>	<u>\$ 576</u>	
Our share:				
Allocated income (loss)	\$ (6,247)	\$ 4,240	\$ 148	
Adjustments ⁽¹⁾	<u>(2,697)</u>	<u>(147)</u>	<u>(9)</u>	
Earnings (loss) from unconsolidated affiliates	<u>\$ (8,944)</u>	<u>\$ 4,093</u>	<u>\$ 139</u>	<u>\$(4,712)</u>
Allocated distributions	<u>\$ 3,250</u>	<u>\$ 3,672</u>	<u>\$ —</u>	<u>\$ 6,922</u>

⁽¹⁾ We recorded adjustments primarily for differences from estimated year end earnings reported in our Annual Report on Form 10-K and actual earnings reported in the audited annual reports of our unconsolidated affiliates. For the quarter ended March 31, 2001, we recorded an additional adjustment relating to the sale of Stingray and West Cameron. The loss on these sales was not allocated proportionately with Deepwater Holdings' ownership percentages because the capital contributed by us was a larger amount of capital at the formation and therefore we were allocated a larger portion of the loss. Our total share of the loss relating to these sales was approximately \$14 million.

⁽²⁾ Divested Investments includes Manta Ray Offshore Gathering Company, L.L.C. and Nautilus Pipeline Company L.L.C. In January 2001, we sold our 25.67% interest in Manta Ray Offshore and our 25.67% interest in Nautilus.

11. RELATED PARTY TRANSACTIONS

Our transactions with related parties and affiliates are as follows:

	Quarter Ended March 31,	
	2002	2001
	(In thousands)	
<i>Revenues received from related parties</i>		
Gathering and processing services	\$ 9,176	\$ 1,080
Natural gas sales	2,918	2,689
Liquid transportation and fractionation services	6,233	2,306
Natural gas storage services	—	878
Platform services	—	34
	<u>\$18,327</u>	<u>\$ 6,987</u>
<i>Expenses paid to related parties</i>		
Cost of natural gas	\$ 8,401	\$15,312
Operating expenses	8,800	6,949
	<u>\$17,201</u>	<u>\$22,261</u>
<i>Reimbursements received from related parties</i>		
Operating expenses	<u>\$ 525</u>	<u>\$ 4,909</u>

There have been no changes to our related party relationships, except as described below, from our 2001 Annual Report on Form 10-K.

At March 31, 2002, and December 31, 2001, our accounts receivable due from related parties was \$18.0 million and \$22.9 million. At March 31, 2002 and December 31, 2001, our accounts payable due to related parties was \$11.2 million and \$9.9 million.

In connection with the sale of our Gulf of Mexico assets in January 2001, El Paso Corporation agreed to make quarterly payments to us of \$2.25 million for three years beginning March 2001 and \$2 million in the first quarter of 2004. The present value of the amounts due from El Paso Corporation were classified as follows:

	March 31, 2002	December 31, 2001
	(In thousands)	
Accounts receivable, net	\$ 7,902	\$ 7,745
Other noncurrent assets	8,323	10,362
	<u>\$16,225</u>	<u>\$18,107</u>

Under a general and administrative services agreement between subsidiaries of El Paso Corporation and us, a fee of approximately \$0.8 million per month is charged to our general partner, and accordingly, to us, which is intended to approximate the amount of resources allocated by El Paso Corporation and its affiliates in providing various operational, financial, accounting and administrative services on behalf of our general partner and us. In April 2002, in connection with our acquisition of midstream assets, our general and administrative services agreement was extended to December 31, 2005, and the fee increased to approximately \$1.6 million per month.

The following table provides summary data categorized by our related parties:

	Quarter Ended March 31,	
	2002	2001
	(In thousands)	
<i>Revenues received from related parties</i>		
El Paso Corporation		
Merchant Energy North America Company	\$ 2,920	\$ 3,549
El Paso Production Company	1,093	841
Tennessee Gas Pipeline Company	—	257
El Paso Field Services	14,314	2,306
Unconsolidated Subsidiaries		
Manta Ray Offshore ⁽¹⁾	—	34
	<u>\$18,327</u>	<u>\$ 6,987</u>
<i>Cost of natural gas purchased from related parties</i>		
El Paso Corporation		
Merchant Energy North America Company	\$ 7,210	\$ 13,072
El Paso Production Company	1,114	2,240
Tennessee Gas Pipeline Company	77	—
	<u>\$ 8,401</u>	<u>\$ 15,312</u>
<i>Operating expenses paid to related parties</i>		
El Paso Corporation		
El Paso Field Services	\$ 8,690	\$ 6,814
Unconsolidated Subsidiaries		
Poseidon Oil Pipeline Company	110	135
	<u>\$ 8,800</u>	<u>\$ 6,949</u>
<i>Reimbursements received from related parties</i>		
Unconsolidated Subsidiaries		
Poseidon Oil Pipeline Company	\$ 525	\$ —
Deepwater Holdings ⁽²⁾	—	4,901
Manta Ray Offshore ⁽¹⁾	—	8
	<u>\$ 525</u>	<u>\$ 4,909</u>

⁽¹⁾ We sold our interest in Manta Ray Offshore in January 2001 in connection with El Paso Corporation's merger with The Coastal Corporation.

⁽²⁾ In January 2001, Deepwater Holdings sold its Stingray and West Cameron subsidiaries. In April 2001, Deepwater Holdings sold its UTOS subsidiary. In October 2001, we acquired the remaining 50 percent of Deepwater Holdings, and as a result of this transaction, Deepwater Holdings is consolidated in our financial statements from the acquisition date and our agreement with Deepwater Holdings terminated.

12. GUARANTOR FINANCIAL INFORMATION

On May 1, 2001, we purchased our general partner's 1.01 percent non-managing interest owned in twelve of our subsidiaries for \$8 million. As a result of this acquisition, all of our subsidiaries, but not our equity investees, are wholly owned by us. As of March 31, 2002, our revolving credit facility is guaranteed by each of our subsidiaries (excluding our Argo, L.L.C. and Argo I, L.L.C. subsidiaries) and is collateralized by our management agreement, substantially all of our assets, and our general partner's one percent general partner interest. In addition, all of our senior subordinated notes are guaranteed by all of our subsidiaries except Argo and Argo I. We are providing the following condensed consolidating financial information of us (as the Issuer) and our subsidiaries as if our current organizational structure were in place for all periods presented. The consolidating eliminations column on our balance sheets eliminate our investment in consolidated subsidiaries, intercompany payables and receivables and other transactions between subsidiaries.

Non-guarantor subsidiaries for the quarter ended March 31, 2002, consisted of Argo and Argo I which owned the Prince TLP. As a result of our disposal of the Prince TLP and our related overriding royalty interest to El Paso Corporation in April 2002, the results of operations and net book value of these assets are reflected as discontinued operations in our statements of income and assets held for sale in our balance sheets and Argo and Argo I became guarantor subsidiaries.

Condensed Consolidating Statement of Income
For the Quarter Ended March 31, 2002

	<u>Issuer</u>	<u>Non-guarantor Subsidiaries</u>	<u>Guarantor Subsidiaries</u>	<u>Consolidated Total</u>
		(In thousands)		
Operating revenues	\$ —	\$ —	\$61,544	\$ 61,544
Operating expenses				
Cost of natural gas	—	—	12,158	12,158
Operations and maintenance	3,272	—	11,168	14,440
Depreciation, depletion and amortization	161	—	12,388	12,549
	<u>3,433</u>	<u>—</u>	<u>35,714</u>	<u>39,147</u>
Operating income (loss)	<u>(3,433)</u>	<u>—</u>	<u>25,830</u>	<u>22,397</u>
Other income (loss)				
Earnings from unconsolidated affiliates	—	—	3,361	3,361
Net gain on sales of assets	—	—	315	315
Other income (loss)	436	—	(10)	426
	<u>436</u>	<u>—</u>	<u>3,666</u>	<u>4,102</u>
Income before interest, income taxes and other charges	(2,997)	—	29,496	26,499
Interest and debt expense	10,439	—	(22,197)	(11,758)
Income from continuing operations	7,442	—	7,299	14,741
Income from discontinued operations	—	4,004	381	4,385
Net income	<u>\$ 7,442</u>	<u>\$4,004</u>	<u>\$ 7,680</u>	<u>\$ 19,126</u>

Condensed Consolidating Statements of Income
For the Quarter Ended March 31, 2001

	<u>Issuer</u>	<u>Non-guarantor Subsidiaries</u>	<u>Guarantor Subsidiaries</u>	<u>Consolidated Total</u>
	(In thousands)			
Operating revenues	\$ —	\$ —	\$ 54,502	\$ 54,502
Operating expenses				
Cost of natural gas	—	—	22,971	22,971
Operations and maintenance	1,792	—	3,724	5,516
Depreciation, depletion and amortization	254	—	8,048	8,302
Asset impairment charge	—	—	3,921	3,921
	<u>2,046</u>	<u>—</u>	<u>38,664</u>	<u>40,710</u>
Operating income (loss)	<u>(2,046)</u>	<u>—</u>	<u>15,838</u>	<u>13,792</u>
Other income (loss)				
Loss from unconsolidated affiliates	—	—	(4,712)	(4,712)
Net loss on sales of assets	(9,676)	—	(705)	(10,381)
Other income	<u>25,953</u>	<u>—</u>	<u>28</u>	<u>25,981</u>
	<u>16,277</u>	<u>—</u>	<u>(5,389)</u>	<u>10,888</u>
Income before interest, income taxes and other charges	14,231	—	10,449	24,680
Interest and debt expense	3,565	—	(14,488)	(10,923)
Minority interest	<u>—</u>	<u>—</u>	<u>(41)</u>	<u>(41)</u>
Income (loss) from continuing operations	17,796	—	(4,080)	13,716
Loss from discontinued operations	<u>—</u>	<u>(743)</u>	<u>—</u>	<u>(743)</u>
Net income (loss)	<u>\$17,796</u>	<u>\$(743)</u>	<u>\$ (4,080)</u>	<u>\$ 12,973</u>

Condensed Consolidating Balance Sheets
March 31, 2002

	<u>Issuer</u>	<u>Non-guarantor Subsidiaries</u>	<u>Guarantor Subsidiaries</u> (In thousands)	<u>Consolidating Eliminations</u>	<u>Consolidated Total</u>
Current assets					
Cash and cash equivalents	\$ 115,002	\$ 10,251	\$ 8,179	\$ —	\$ 133,432
Accounts receivable, net					
Trade	720	323	31,349	—	32,392
Affiliate	990,656	18	5,876	(978,574)	17,976
Other current assets	3,314	—	—	—	3,314
Total current assets	1,109,692	10,592	45,404	(978,574)	187,114
Property, plant and equipment, net	3,339	—	933,462	—	936,801
Assets held for sale, net	—	155,774	32,409	—	188,183
Investment in processing agreement	—	—	118,462	—	118,462
Investment in unconsolidated affiliates	—	—	33,438	—	33,438
Investment in consolidated affiliates	65,061	—	49,853	(114,914)	—
Other noncurrent assets	194,069	1,041	3,081	(169,999)	28,192
Total assets	<u>\$1,372,161</u>	<u>\$167,407</u>	<u>\$1,216,109</u>	<u>\$ (1,263,487)</u>	<u>\$1,492,190</u>
Current liabilities					
Accounts payable					
Trade	\$ —	\$ 2,107	\$ 6,688	\$ —	\$ 8,795
Affiliate	1,766	19,917	968,044	(978,574)	11,153
Accrued interest	14,128	530	—	—	14,658
Current maturities of limited recourse term loan	—	19,000	—	—	19,000
Other current liabilities	—	—	5,171	—	5,171
Total current liabilities	15,894	41,554	979,903	(978,574)	58,777
Revolving credit facility	444,000	—	—	—	444,000
Long-term debt	425,000	—	—	—	425,000
Limited recourse term loan, less current maturities	—	76,000	—	—	76,000
Other noncurrent liabilities	—	—	171,145	(169,999)	1,146
Partners' capital	487,267	49,853	65,061	(114,914)	487,267
Total liabilities and partners' capital	<u>\$1,372,161</u>	<u>\$167,407</u>	<u>\$1,216,109</u>	<u>\$ (1,263,487)</u>	<u>\$1,492,190</u>

Condensed Consolidating Balance Sheet
December 31, 2001

	<u>Issuer</u>	<u>Non-guarantor Subsidiaries</u>	<u>Guarantor Subsidiaries</u> (In thousands)	<u>Consolidating Eliminations</u>	<u>Consolidated Total</u>
Current assets					
Cash and cash equivalents	\$ 7,406	\$ 2,571	\$ 3,107	\$ —	\$ 13,084
Accounts receivable, net					
Trade	—	191	32,971	—	33,162
Affiliate	970,933	2,130	2,150	(952,350)	22,863
Other current assets	<u>2,375</u>	<u>—</u>	<u>(2,082)</u>	<u>—</u>	<u>293</u>
Total current assets	980,714	4,892	36,146	(952,350)	69,402
Property, plant and equipment, net	2,371	—	915,496	—	917,867
Assets held for sale, net	—	152,998	32,826	—	185,824
Investment in processing agreement	—	—	119,981	—	119,981
Investment in unconsolidated affiliates	—	—	34,442	—	34,442
Investment in consolidated affiliates	51,960	—	45,849	(97,809)	—
Other noncurrent assets	<u>196,777</u>	<u>1,089</u>	<u>1,887</u>	<u>(169,999)</u>	<u>29,754</u>
Total assets	<u>\$1,231,822</u>	<u>\$158,979</u>	<u>\$1,186,627</u>	<u>\$(1,220,158)</u>	<u>\$1,357,270</u>
Current liabilities					
Accounts payable					
Trade	\$ 587	\$ 3,859	\$ 10,541	\$ —	\$ 14,987
Affiliate	—	13,568	948,700	(952,350)	9,918
Accrued interest	5,698	703	—	—	6,401
Current maturities of limited recourse term loan	—	19,000	—	—	19,000
Other current liabilities	<u>(189)</u>	<u>—</u>	<u>4,348</u>	<u>—</u>	<u>4,159</u>
Total current liabilities	6,096	37,130	963,589	(952,350)	54,465
Revolving credit facility	300,000	—	—	—	300,000
Long-term debt	425,000	—	—	—	425,000
Limited recourse term loan, less current maturities	—	76,000	—	—	76,000
Other noncurrent liabilities	—	—	171,078	(169,999)	1,079
Partners' capital	<u>500,726</u>	<u>45,849</u>	<u>51,960</u>	<u>(97,809)</u>	<u>500,726</u>
Total liabilities and partners' capital	<u>\$1,231,822</u>	<u>\$158,979</u>	<u>\$1,186,627</u>	<u>\$(1,220,158)</u>	<u>\$1,357,270</u>

Condensed Consolidating Statements of Cash Flow
For the quarter ended March 31, 2002

	Issuer	Non-guarantor Subsidiaries	Guarantor Subsidiaries	Consolidated Total
	(In thousands)			
Cash flows from operating activities				
Net income	\$ 7,442	\$ 4,004	\$ 7,680	\$ 19,126
Less income from discontinued operations	—	4,004	381	4,385
Income from continuing operations	7,442	—	7,299	14,741
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, depletion and amortization	161	—	12,388	12,549
Net gain on sales of assets	—	—	(315)	(315)
Distributed earnings of unconsolidated affiliates				
Earnings from unconsolidated affiliates	—	—	(3,361)	(3,361)
Distributions from unconsolidated affiliates	—	—	4,500	4,500
Other noncash items	1,090	—	175	1,265
Working capital changes, net of non-cash transactions	7,688	(1,884)	2,595	8,399
Net cash provided by continuing operations	16,381	(1,884)	23,281	37,778
Net cash provided by discontinued operations	—	4,631	798	5,429
Net cash provided by operating activities	16,381	2,747	24,079	43,207
Cash flows from investing activities				
Additions to property, plant and equipment	(1,129)	—	(33,981)	(35,110)
Proceeds from sale of assets	—	—	5,460	5,460
Net cash used in investing activities of continuing operations	(1,129)	—	(28,521)	(29,650)
Net cash used in investing activities of discontinued operations	—	(3,523)	—	(3,523)
Net cash used in investing activities	(1,129)	(3,523)	(28,521)	(33,173)
Cash flows from financing activities				
Net proceeds from revolving credit facility	143,978	—	—	143,978
Net proceeds from issuance of common units	56	—	—	56
Advances with affiliates	(17,973)	8,459	9,514	—
Distributions to partners	(33,717)	—	—	(33,717)
Net cash provided by financing activities of continuing operations	92,344	8,459	9,514	110,317
Net cash used in financing activities of discontinued operations	—	(3)	—	(3)
Net cash provided by financing activities	92,344	8,456	9,514	110,314
Increase in cash and cash equivalents	\$107,596	\$ 7,680	\$ 5,072	120,348
Cash and cash equivalents				
Beginning of period				13,084
End of period				\$133,432

Condensed Consolidating Statements of Cash Flow
For the quarter ended March 31, 2001

	Issuer	Non-guarantor Subsidiaries	Guarantor Subsidiaries	Consolidated Total
	(In thousands)			
Cash flows from operating activities				
Net income (loss)	\$ 17,796	\$ (743)	\$ (4,080)	\$ 12,973
Less loss from discontinued operations	<u>—</u>	<u>(743)</u>	<u>—</u>	<u>(743)</u>
Income (loss) from continuing operations	17,796	—	(4,080)	13,716
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, depletion and amortization	254	—	8,048	8,302
Asset impairment charge	—	—	3,921	3,921
Net loss on sale of assets	9,676	—	705	10,381
Distributed earnings of unconsolidated affiliates				
Loss from unconsolidated affiliates	—	—	4,712	4,712
Distributions from unconsolidated affiliates	—	—	6,922	6,922
Other noncash items	912	—	—	912
Working capital changes, net of non-cash transactions	<u>(19,172)</u>	<u>(167)</u>	<u>(4,169)</u>	<u>(23,508)</u>
Net cash provided by (used in) continuing operations	9,466	(167)	16,059	25,358
Net cash used by discontinued operations	<u>—</u>	<u>(519)</u>	<u>—</u>	<u>(519)</u>
Net cash provided by (used in) operating activities	<u>9,466</u>	<u>(686)</u>	<u>16,059</u>	<u>24,839</u>
Cash flows from investing activities				
Additions to property, plant and equipment	—	—	(136,267)	(136,267)
Proceeds from sale of assets	89,162	—	19,071	108,233
Additions to investments in unconsolidated affiliates	<u>—</u>	<u>—</u>	<u>(1,486)</u>	<u>(1,486)</u>
Net cash provided by (used in) investing activities of continuing operations	89,162	—	(118,682)	(29,520)
Net cash used in investing activities of discontinued operations	<u>—</u>	<u>(18,207)</u>	<u>—</u>	<u>(18,207)</u>
Net cash provided by (used in) investing activities	<u>89,162</u>	<u>(18,207)</u>	<u>(118,682)</u>	<u>(47,727)</u>
Cash flows from financing activities				
Net proceeds from revolving credit facility	142,620	—	—	142,620
Revolving credit repayments	(123,000)	—	—	(123,000)
Net proceeds from issuance of common units	73,358	—	—	73,358
Advances with affiliates	(103,914)	1,291	102,623	—
Distributions to partners	<u>(22,122)</u>	<u>—</u>	<u>—</u>	<u>(22,122)</u>
Net cash provided by (used in) financing activities of continuing operations	(33,058)	1,291	102,623	70,856
Net cash provided by financing activities of discontinued operations	<u>—</u>	<u>24,962</u>	<u>—</u>	<u>24,962</u>
Net cash provided by (used in) financing activities	<u>(33,058)</u>	<u>26,253</u>	<u>102,623</u>	<u>95,818</u>
Increase in cash and cash equivalents	<u>\$ 65,570</u>	<u>\$ 7,360</u>	<u>\$ —</u>	<u>72,930</u>
Cash and cash equivalents				
Beginning of period				20,281
End of period				<u>\$ 93,211</u>

13. New Accounting Pronouncements Not Yet Adopted

Accounting for Asset Retirement Obligations

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement requires companies to record a liability relating to the retirement and removal costs of assets used in their business. The liability is discounted to its present value, and the related asset value is increased by the amount of the resulting liability. Over the life of the asset, the liability will be accreted to its future value and eventually extinguished when the asset is taken out of service. Capitalized retirement and removal costs will be depreciated over the useful life of the related asset. The provisions of this statement are effective for fiscal years beginning after June 15, 2002. We are currently evaluating the effects of this pronouncement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in Item 2 updates, and you should read it in conjunction with, information disclosed in Part II, Items 7, 7A and 8, in our Annual Report on Form 10-K for the year ended December 31, 2001, in addition to the interim financial statements and notes presented in Item 1 of this Quarterly Report on Form 10-Q.

Recent Developments

EPN Holding Assets

In April 2002, EPN Holding acquired from El Paso Corporation midstream assets located in Texas and New Mexico. The acquired assets include:

- Texas pipeline assets, including the EPGT Texas intrastate pipeline system;
- the Waha gathering and treating system located in the Permian Basin region of Texas and New Mexico;
- the Carlsbad gathering system located in the Permian Basin region of New Mexico;
- an approximate 42.3 percent non-operating interest in the Indian Basin processing and treating facility located in southeastern New Mexico; and
- a leased interest in the Wilson natural gas storage facility located in Wharton County, Texas.

The \$750 million sales price was adjusted for the assumption of \$15 million of working capital related to natural gas imbalances. The net consideration of \$735 million for the EPN Holding assets was comprised of the following:

- \$420 million of cash;
- \$119 million of assumed short-term indebtedness payable to El Paso Corporation, which has been repaid;
- \$6 million in common units; and
- \$190 million in assets, comprised of our Prince TLP and our nine percent Prince overriding royalty interest.

To finance substantially all of the cash consideration related to this acquisition, EPN Holding entered into a limited recourse credit agreement with a syndicate of commercial banks. EPN Holding's obligations under the credit agreement are guaranteed by substantially all of its subsidiaries and EPN Holding Company I, L.P. and EPN GP Holding, L.L.C., our two subsidiaries that own the equity interests in EPN Holding. Those obligations are collateralized by the equity interest in, and substantially all of the assets of, EPN Holding and its subsidiaries. In addition, the credit agreement limits EPN Holding's ability to pay distributions to us.

As discussed in our Form 10-K, we have instituted specific procedures for evaluating and valuing transactions with El Paso Corporation and its subsidiaries. This acquisition of the midstream assets was consummated only after the Special Conflicts Committee's approval and recommendation of the transaction.

Falcon Nest

In April 2002, we entered into an agreement with Pioneer Natural Resources and Mariner Energy, Inc. Company under which we will construct, install, own, and operate a fixed-leg platform and processing facility to process natural gas from Pioneer's and Mariner's Falcon Field discoveries located in the Gulf of Mexico. We expect this platform to have processing capacity of at least 300 MMcf/d and to place this platform in service in the first quarter of 2003.

Cameron Highway Project

In February 2002, we announced that we will build and operate the Cameron Highway Oil Pipeline System, a 380-mile oil pipeline in the Gulf of Mexico. Cameron Highway will deliver up to 500 MBbl/d of oil from the southern Green Canyon and western Gulf of Mexico areas to Port Arthur and Texas City, Texas. The new pipeline is expected to be in service by the third quarter of 2004. We have entered into agreements with operating subsidiaries of BP p.l.c., BHP Billiton, and Unocal under which each of them has dedicated production from the Holstein, Mad Dog, and Atlantis discoveries in the Deepwater Trend in the Gulf of Mexico to Cameron Highway. We plan to seek a partner or partners for up to 50 percent of the interest in the pipeline.

Hattiesburg Storage Facility

In January 2002, we acquired a 3.3 million barrel propane storage business and leaching operation located in Hattiesburg, Mississippi from Suburban Propane Partners, L.P. As part of the transaction, we entered into a long-term propane storage agreement with Suburban Propane Partners for a portion of the acquired propane storage capacity. We intend to convert a portion of these assets to natural gas storage and will integrate them with our adjacent Petal natural gas storage facility.

Segment Results

In October 2001, we acquired the Chaco plant and reflected the operations of this asset in our Oil and NGL logistics segment. In light of acquiring additional natural gas pipeline and processing assets, effective January 1, 2002, we moved the Chaco Plant to our Natural gas pipelines and plants. As a result of our sale of the Prince TLP and our nine percent overriding interest in the Prince Field in April 2002, the results of operations from these assets are reflected as discontinued operations in our statements of income for all periods presented and are not reflected in our segment results below. Beginning in 2002, operations from our oil and natural gas production are reflected in Other.

To the extent possible, results of operations have been reclassified to conform to the current business segment presentation, although these results may not be indicative of the results which would have been achieved had the revised business segment structure been in effect during those periods. Operating revenues and expenses by segment include intersegment revenues and expenses which are eliminated in consolidation. The following table presents EBIT by segment and in total for each of the quarters ended March 31:

	<u>2002</u>	<u>2001</u>
	(In thousands)	
Earnings Before Interest Expense and Income Taxes		
Natural gas pipelines and plants	\$13,673	\$ 8,206
Oil and NGL logistics	8,108	6,720
Natural gas storage	1,308	2,533
Platform services	<u>6,093</u>	<u>4,755</u>
Segment EBIT	29,182	22,214
Other, net	<u>(2,683)</u>	<u>2,466</u>
Consolidated EBIT	<u><u>\$26,499</u></u>	<u><u>\$24,680</u></u>

EBIT variances are discussed in the segment results below.

Natural Gas Pipelines and Plants

	Quarter Ended March 31,	
	<u>2002</u>	<u>2001</u>
	(In thousands, except for volumes)	
Gathering and processing revenue	\$ 26,000	\$ 6,470
Natural gas sales	<u>14,419</u>	<u>24,605</u>
Total operating revenues	40,419	31,075
Cost of natural gas	(12,158)	(22,971)
Operating expenses	(14,906)	(6,137)
Other income	<u>318</u>	<u>6,239</u>
EBIT	<u><u>\$ 13,673</u></u>	<u><u>\$ 8,206</u></u>
Volumes (MDth/d)		
HIOS	831	978
Viosca Knoll Gathering	533	563
East Breaks	214	239
El Paso Intrastate Alabama	195	170
Indian Basin Pipeline	38	—
Chaco Plant	<u>619</u>	<u>—</u>
Total volumes	<u><u>2,430</u></u>	<u><u>1,950</u></u>

Gathering and processing revenue for the quarter ended March 31, 2002, was \$19.5 million higher than in the same period in 2001, primarily due to our consolidation of Deepwater Holdings and the purchase of the Chaco plant in October 2001. Natural gas sales margin, or natural gas sales less cost of natural gas, for the

quarter ended March 31, 2002, were \$0.6 million higher than in the same period in 2001 primarily due to increased volumes and an increase in the spread between our sales price and our cost of natural gas on EPIA in 2002.

Operating expenses for the quarter ended March 31, 2002, were \$8.8 million higher than the same period in 2001 primarily due to our consolidation of Deepwater Holdings and the purchase of the Chaco plant in October 2001.

Other income for the quarter ended March 31, 2002, was \$5.9 million lower than the same period in 2001 primarily due to our receipt of \$22.0 million in additional consideration from El Paso Corporation associated with the sale of our Gulf of Mexico pipeline assets in 2001, partially offset by net losses of \$7.8 million due to the sale of our interests in the Tarpon and Green Canyon pipeline assets in January 2001. Further contributing to our decrease in other income was lower earnings from unconsolidated affiliates of \$8.9 million, which relates to Deepwater Holdings' sale of Stingray and the West Cameron dehydration facility and the sale of our interest in Nautilus and Manta Ray Offshore during the first quarter of 2001.

Oil and NGL Logistics

	Quarter Ended March 31,	
	2002	2001
	(In thousands, except for volumes)	
Liquid transportation and fractionation revenue	\$ 8,826	\$ 4,272
Operating expenses	(4,079)	(1,645)
Other income	3,361	4,093
EBIT	<u>\$ 8,108</u>	<u>\$ 6,720</u>
Volume (Bbl/d)		
Poseidon Oil Pipeline	142,677	161,498
EPN Texas	70,837	24,016
Allegheny Oil Pipeline	18,226	15,774
Total volumes	<u>231,740</u>	<u>201,288</u>

For the quarter ended March 31, 2002, revenues were \$4.6 million higher and operating expenses were \$2.4 million higher than the same period in 2001, due to our acquisitions of the EPN Texas transportation and fractionation assets in February 2001, the Hattiesburg propane storage facility in January 2002, and the Anse La Butte NGL storage facility in December 2001.

Other income for the quarter ended March 31, 2002, was \$0.7 million lower than the same period in 2001 primarily due to a decrease in earnings from unconsolidated affiliates attributable to Poseidon Oil Pipeline due to lower volumes.

Natural Gas Storage

	Quarter Ended March 31,	
	2002	2001
	(In thousands)	
Natural gas storage revenue	\$ 4,388	\$ 4,958
Operating expenses	(3,080)	(2,425)
EBIT	<u>\$ 1,308</u>	<u>\$ 2,533</u>

Natural gas storage revenue for the quarter ended March 31, 2002, was \$0.6 million lower than the same period in 2001, primarily due to lower interruptible storage services during 2002.

Operating expenses for the quarter ended March 31, 2002, were \$0.7 million higher than the same period in 2001, primarily due to the favorable resolution of an imbalance settlement in 2001.

Platform Services

	Quarter Ended March 31,	
	2002	2001
	(In thousands, except for volumes)	
Platform services revenue	\$ 7,571	\$ 7,033
Operating expenses	(1,478)	(2,260)
Other loss	—	(18)
EBIT	<u>\$ 6,093</u>	<u>\$ 4,755</u>
Natural gas platform volumes (Mdth/d)		
East Cameron 373 platform	150	172
Garden Banks 72 platform	6	12
Viosca Knoll 817 platform	9	10
Total natural gas platform volumes	<u>165</u>	<u>194</u>
Oil platform volumes (Bbl/d)		
East Cameron 373 platform	1,728	2,131
Garden Banks 72 platform	1,062	1,737
Viosca Knoll 817 platform	2,075	2,040
Total oil platform volumes	<u>4,865</u>	<u>5,908</u>

For the quarter ended March 31, 2002, revenues were \$0.5 million higher than in the same period in 2001, due to an increase in access fees on East Cameron 373. Operating expenses for the same periods were \$0.8 million lower due to lower direct costs.

Other loss for the quarter ended March 31, 2001, reflects approximately \$3.0 million of losses recognized on the sales of our Gulf of Mexico platform assets in January 2001, offset by the additional consideration from El Paso Corporation related to the sale of these assets.

Other, Net

Earnings before interest expense and taxes related to non-segment activity for the quarter ended March 31, 2002, was \$5.1 million lower than the same period in 2001. The decrease was primarily due to lower natural gas and oil prices in 2002, partially offset by lower depletion from natural gas production as a result of upward revisions of prior estimates of reserve quantities.

Interest and Debt Expense

Interest and debt expense, net of capitalized interest, for the three months ended March 31, 2002, was approximately \$0.8 million higher than the same period in 2001. This increase primarily relates to the \$250 million of 8.5% Senior Subordinated Notes which were issued in May 2001, partially offset by a decrease in interest rates on our revolving credit facility. Capitalized interest in the first quarter of 2002 was \$1.6 million.

Liquidity and Capital Resources

Cash From Operating Activities

Net cash provided by operating activities was \$43.2 million for the quarter ended March 31, 2002, compared to \$24.8 million for the same period in 2001. The increase was attributable to operating cash flows from our acquisitions of the Chaco plant and the remaining 50 percent interest in Deepwater Holdings that we did not already own in October 2001. This increase was partially offset by lower cash distributions from unconsolidated affiliates relating to our consolidation of Deepwater Holdings in October 2001.

Cash From Investing Activities

Net cash used in investing activities was approximately \$33.2 million for the quarter ended March 31, 2002. Capital expenditures primarily related to the expansion of our Petal natural gas storage facility. Proceeds from asset sales related to the Buffalo Treating Facility which we sold to El Paso Production Company in the first quarter of 2002.

Cash From Financing Activities

Net cash provided by financing activities was approximately \$110.3 million for the quarter ended March 31, 2002. We received net proceeds of \$144 million from borrowings under our revolving credit facility, \$95 million of which was subsequently used to pay in full the limited recourse term loan in April 2002. We paid distributions to our partners of \$33.7 million.

We expect that future funding for capital expenditures, acquisitions, and other investing activities and for long-term debt retirements, distributions, and other financing activities will be provided by internally generated funds, available capacity under existing credit facilities, and the issuance of long-term debt or equity. In February 2002, our shelf registration statement, as filed with the Securities and Exchange Commission, covering up to \$1 billion of securities representing limited partnership interests, became effective.

Liquidity

For a discussion of our financing arrangements and transactions, see Part I, Financial Information, Note 6, which is incorporated herein by reference.

Commitments and Contingencies

See Part I, Financial Information, Note 7, which is incorporated herein by reference.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this document that constitute forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations. These statements may relate to information or assumptions about:

- earnings per unit;
- capital and other expenditures;
- cash distributions;
- financing plans;
- capital structure;
- liquidity and cash flow;
- pending legal proceedings and claims, including environmental matters;
- future economic performance;
- operating income;
- cost savings;
- management's plans; and
- goals and objectives for future operations.

Important factors that could cause actual results to differ materially from estimates or projections contained in forward-looking statements are described in our Annual Report on Form 10-K for the year ended December 31, 2001, and other filings with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This information updates, and you should read it in conjunction with, our quantitative and qualitative disclosures about market risks reported in our Annual Report on Form 10-K for the year ended December 31, 2001, in addition to information presented in Items 1 and 2 of this Quarterly Report on Form 10-Q and our Current Reports on Form 8-K.

During 2001, we entered into cash flow hedges. As of March 31, 2002, the fair value of these cash flow hedges is immaterial. During the quarter ended March 31, 2002, the majority of our cash flow hedges expired and we reclassified \$1.4 million from accumulated other comprehensive income to earnings.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Financial Information, Note 7, which is incorporated herein by reference.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Each exhibit identified below is filed as part of this report. Exhibits not incorporated by reference to a prior filing are designated by an asterisk.

(a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
4.D	— Indenture dated as of May 27, 1999 among El Paso Energy Partners, L.P., El Paso Energy Partners Finance Corporation, the Subsidiary Guarantors and Chase Bank of Texas, as Trustee (Exhibit 4.1 to our Registration Statement on Form S-4, filed on June 24, 1999, File Nos. 333-81143 through 333-81143-17).
*4.D.1	— Sixth Supplemental Indenture dated as of April 18, 2002 to the Indenture dated as of May 27, 1999 among El Paso Energy Partners, L.P., El Paso Energy Partners Finance Corporation, the Subsidiary Guarantors and JP Morgan Chase Bank, as Trustee.
*4.D.2	— Seventh Supplemental Indenture dated as April 18, 2002 to the Indenture dated as of May 27, 1999 among El Paso Energy Partners, L.P., El Paso Energy Partners Finance Corporation, the Subsidiary Guarantors and JP Morgan Chase Bank, as Trustee.
4.E	— Indenture dated as of May 11, 2000 among El Paso Energy Partners, L.P., El Paso Energy Partners Finance Corporation, the Subsidiary Guarantors and The Chase Manhattan Bank, as Trustee (Exhibit 4.1 to our Registration Statement on Form S-4, filed June 25, 2001, Registration Nos. 333-63800 through 333-63800-20).
*4.E.1	— First Supplemental Indenture dated as of April 18, 2002 to the Indenture dated as of May 17, 2001 among El Paso Energy Partners, L.P., El Paso Energy Partners Finance Corporation, The Subsidiary Guarantors and JP Morgan Chase Bank, as Trustee.
*4.E.2	— Second Supplemental Indenture dated as April 18, 2002 to the Indenture dated as of May 17, 2001 among El Paso Energy Partners, L.P., El Paso Energy Partners Finance Corporation, The Subsidiary Guarantors and JP Morgan Chase Bank, as Trustee.
10.A	— General and Administrative Services Agreement by and between DeepTech International Inc., El Paso Energy Partners Company, and El Paso Field Services, L.P., dated as of April 8, 2002 (Exhibit 10.A to our Form 8-K filed April 22, 2002).
*10.B.1	— Second Amendment dated as of March 28, 2002 to Fifth Amended and Restated Credit Agreement.

<u>Exhibit Number</u>	<u>Description</u>
10.N	— Purchase, Sale and Merger Agreement by and between El Paso Tennessee Pipeline Co. and El Paso Energy Partners, L.P., dated as of April 1, 2002 (Exhibit 10.N to our Form 8-K filed April 22, 2002).
10.O	— Contribution Agreement by and between El Paso Field Services Holding Company and El Paso Energy Partners, L.P., dated as of April 1, 2002 (Exhibit 10.O to our Form 8-K filed April 22, 2002).
10.P	— Purchase and Sale Agreement by and between El Paso Energy Partners, L.P. and El Paso Production GOM Inc. dated as of April 1, 2002 (Exhibit 10.P to our Form 8-K filed April 22, 2002).
10.Q	— Credit Agreement among EPN Holding Company, L.P., the Lenders party thereto, Banc One Capital Markets, Inc. and Wachovia Bank, N.A., as Co-Syndication Agents, Fleet National Bank and Fortis Capital Corp., as Co-Documentation Agents, and JPMorgan Chase Bank, as Administrative Agent, dated as of April 8, 2002 (Exhibit 10.Q to our Form 8-K filed April 22, 2002).

(b) Reports on Form 8-K

We filed a current report on Form 8-K dated April 15, 2002, announcing the completion of a previously announced acquisition of certain Texas and New Mexico midstream assets from El Paso Corporation.

We filed a current report on Form 8-K dated April 22, 2002, providing audited financial statements of the acquired businesses.

We filed a current report on Form 8-K dated April 24, 2002, filing the consents from experts incorporated by reference in our Registration Statement on Form S-3 (File No. 333-85987).

We filed a current report on Form 8-K dated April 29, 2002, filing the Underwriting Agreement in connection with our recent public offering of 3 million common units.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EL PASO ENERGY PARTNERS, L.P.

By: EL PASO ENERGY PARTNERS COMPANY,
its General Partner

Date: May 15, 2002

By: /s/ KEITH B. FORMAN
 Keith B. Forman
 Vice President and Chief Financial Officer

Date: May 15, 2002

By: /s/ D. MARK LELAND
 D. Mark Leland
 Senior Vice President and Controller
 (Principal Accounting Officer)